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TPHY, TSPL, RS

SUBJECT: DOES RUSSIA WANT THE INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER?

REFS: A. MOSCOW 2883
[1](#)B. MOSCOW 1631

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[1](#)1. (SBU) SUMMARY: Post understands that the Department is considering the future direction of the International Science and Technology Center (ISTC), in consultation with ISTC international partners. Key local contacts over the past month have indicated that although powerful forces would like to shut ISTC down in its current incarnation and perhaps altogether, the GOR has yet to arrive at a coherent position on ISTC's future. We believe there is still time for Washington to work with the other ISTC partners to prevent ISTC from being crippled by an upcoming GOR decision on taxation and to resolve other political and bureaucratic challenges.
END SUMMARY.

RUSSIA STILL UNDECIDED ON ISTC

[1](#)2. (SBU) Rosatom Deputy Director Nikolay Spasskiy told the DCM in August, "You have to stop saying that ISTC is intended to employ unemployed or underpaid Russian scientists so they don't go sell their skills to Hezbollah and Al Qaida." Although the DCM denied that the Embassy was making such comments, Spasskiy argued that the U.S. had said similar things on many occasions in the past. He stressed, "Russia can pay its own scientists and in fact has lots of good work for them. The ISTC needs to be refocused and rejustified as a partnership in both countries' interest."

[1](#)3. (SBU) Spasskiy's comments reflect thinking on ISTC at higher levels in several agencies. There seems to be a tussle between those who want to save an ISTC with a broadened mandate and those who want to kill it outright or through a slow death by bureaucratic strangulation. None of our contacts believes ISTC should remain focused solely on nonproliferation. In a meeting on September 29, ISTC's Executive Director, Adriaan Van der Meer, described the wide range of comments on ISTC from his Russian contacts, ranging from solid support to extreme suspicion. The scientific community and some Rosatom contacts contend that ISTC is a vital player in science and technology cooperation and functions more effectively than bilateral activities. On the other end of the spectrum, Federal Security Service (FSB) officials and some at the MFA view ISTC as a "Cold War instrument" that is stealing Russian know-how without compensating Russian scientists for their intellectual property. Van der Meer was horrified when the chairman of the commission at the Russian Academy of Sciences responsible for approving ISTC projects asked him only a week ago whether ISTC still existed.

14. (SBU) Aleksey Ubeyev, the acting director of Rosatom's international department, told us on September 19 that the Russian interagency is still trying to work out a coordinated position on ISTC, joking that "in Russia, it is more difficult to close down an entity than it is to establish one" (REF A). A working-level contact at Rosatom's international department told us on September 30 that the MFA is engaging with the Finance Ministry to ensure that ISTC maintains its tax-exempt status as an inter-governmental institution (see below). The same contact, however, told us approximately two months ago that then-Deputy Foreign Minister Sergey Kislyak was a strong opponent of ISTC, and that the MFA would likely be more favorably disposed toward the Center once Kislyak had relocated to Washington as Ambassador.

AN IMPENDING DECISION ON TAXATION

15. (SBU) On September 26, Russian Academy of Sciences (RAS) Vice-President Nikolay Laverov warned us that the Government of Russia (GOR) is poised to deny tax-exempt status to ISTC (septel). Decree Number 485 signed on June 28 by Prime Minister Putin cuts the list of foreign grant-making organizations from approximately 100 to 12, all multilateral entities. The GOR is reportedly preparing a new list, and previously tax-exempt organizations not included in the new list will be liable for taxes beginning January 1, 2009. Laverov said this decision would effectively kill ISTC, as the Center's international partners would refuse to have their payments to ISTC taxed in excess of 30 percent. Laverov expressed sadness, saying that he had participated in establishing ISTC and had always been a fervent supporter of the institution.

MOSCOW 00002917 002 OF 003

16. (SBU) Van der Meer was surprised and disappointed when we conveyed Laverov's remarks, noting that although he has not been informed of an official decision to remove ISTC's tax exemptions, he had heard informally from MFA and Rosatom contacts that such a decision might be coming. He said that ISTC has been lobbying the MFA behind the scenes and provided MFA with ISTC's legal analysis that the decree does not pertain to the Center because it was established by international agreement. Although the MFA's legal department has agreed orally that the decree should not apply, it has not provided ISTC with a document to that effect.

ISTC'S MANY CHALLENGES

17. (SBU) ISTC faces many challenges besides the possibility of crippling taxation. Van der Meer cited the issue of "inefficiency" in obtaining host government concurrence on project proposals, with an average of 400 days elapsing from the date of a project proposal submission until concurrence. ISTC projects must receive concurrence by the relevant Russian agency: Rosatom (for nuclear projects), or RAS (for everything else). Approvals have slowed to a relative trickle since 2006. The 20-25 project proposals that Rosatom has approved and that now await ISTC Board approval are all very non-sensitive, with no hint of any dual-use purpose. RAS assured Van der Meer that it would convene its committee in early October and approve a number of projects for Board consideration.

18. (SBU) Our GOR contacts suggest that these delays may be due largely to political inertia, as the GOR has not designated a single lead agency for ISTC issues. Almost two years ago, the GOR resolved to establish an interagency commission on interaction with ISTC, which in turn was to authorize entities to issue host government concurrence. Over the past year, the Ministry of Science and Education, RAS, and Rosatom were all considered as possible lead agencies. Laverov told us that he made an attempt to have RAS designated, but other forces in the government did not support the proposal. Laverov noted pointedly that Science and Education Minister Andrey Fursenko did not volunteer his ministry as the lead agency and added that there are serious doubts whether Rosatom, which is a state-owned corporation and no longer formally part of the government, can legally serve as lead agency. Because the

question of what agency should be the lead for ISTC has not been resolved, agencies have issued few host government concurrences. In June, we invited the MFA to convene bilateral discussions on how to transform ISTC's mission (REF B). The proposed dates for the talks have repeatedly slipped for various reasons, and we are now awaiting a GOR response on a proposed date in late October.

¶9. (SBU) Finally, Van der Meer cited the challenge of financing ISTC's operations. He noted that the institution suffers from excessive personnel costs and a significant number of underperforming staff. Shedding this institutional dead-weight, he said, is made difficult to impossible by Russia's restrictive labor laws. He also leveled sharp criticism against the USG, which he said had reduced its core funding of ISTC. He suggested that the USG should back up its rhetorical support of the Center with greater financial backing. Unless the U.S. party increases its project funding, he said the Center would need to consider reducing its U.S. expatriate staff. He knows that the EU has also been looking critically at the disproportionate amount of U.S. staff at the Center.

POSSIBLE WAYS FORWARD

¶10. (SBU) Van der Meer said that he wants to force a bold departure for ISTC to break out of the current stalemate. He would like to host a strategy session of the principal partners before the ISTC's December board meeting to discuss the Center's future. If ISTC remains in Russia, Van der Meer sees three possible options: (1) Gain Russia's active buy-in to make ISTC into an international center of excellence for non-proliferation that would make its know-how accessible to other countries. This means that ISTC would need to find new funding sources. (2) Alternatively, ISTC could become an international center for science cooperation addressing global security issues, such as safer nuclear energy, biomedical research, global security and counterterrorism, climate change research, and development of alternative energy. (3) ISTC could

MOSCOW 00002917 003 OF 003

change its regional focus to Central Asia and the Caucasus.

COMMENT: ENGAGE NOW

¶11. (SBU) In order to keep ISTC as a vital instrument of international cooperation in nonproliferation and other scientific research and development activity, the U.S. needs to act before the Russian government makes a decision on ISTC's future. We agree that ISTC should be transformed in place to meet the needs of its partners. But to meet Russia's needs, ISTC's mandate will need to be broadened beyond nonproliferation, which means that partners, including Russia, will need to find new sources of funding.

¶12. (SBU) Post supports Van der Meer's proposal of an informal roundtable meeting with all the parties, including Russia, before the December ISTC board meeting. Post agrees that it would be useful for the Department to express to key GOR contacts and ISTC partners our interest in exploring broadening ISTC's mandate, even though Ambassador Kislyak may not be the most supportive audience. Hopefully, doing so will not precipitate a GOR decision that we would not like.

¶13. (SBU) For its part, post has already requested an appointment with the head of the Ministry of Science and Education's International Department Nichkov for EST Counselor and a meeting between Ambassador Beyrle and Minister Fursenko in the coming days. Post also recommends that Department and post work with ISTC to develop a list of ISTC accomplishments outside the field of nonproliferation that were spurred by nonproliferation-related and non-nonproliferation-related funding. This might help reinforce the position of those who would like to save ISTC.

BEYRLE